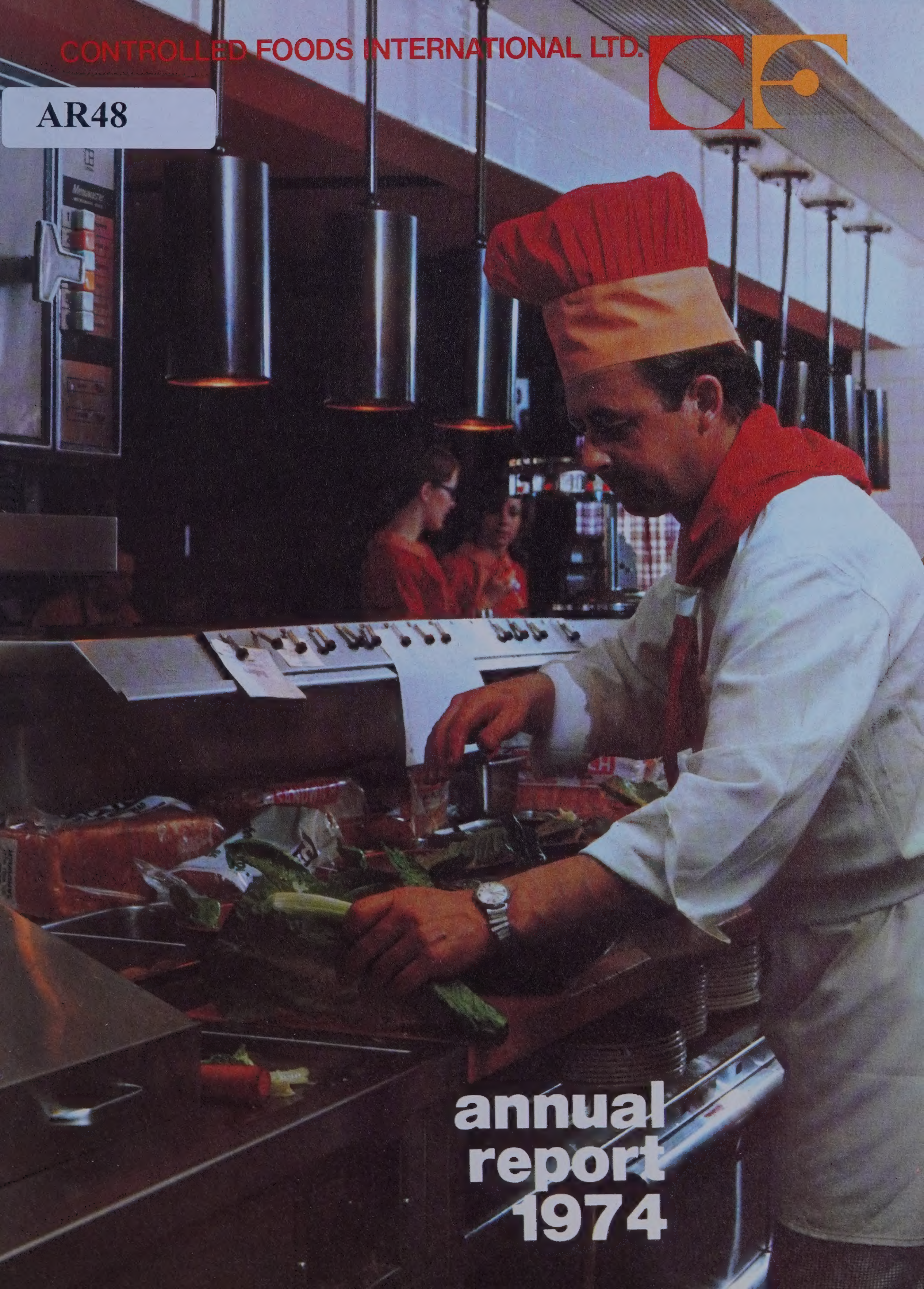
CONTROLLED FOODS INTERNATIONAL LTD.



annual report 1974

Highlights

(000's eliminated)

	1974	1973
Revenues	**$27,126**	$20,482
Net income for year before extraordinary income	**733**	601
Net income for year	**785**	733
Cash flow	**1,755**	1,483
Total assets	**15,475**	14,172
Shareholders' equity	**6,436**	6,060

	1974	1973
Per common share:		
Net income for year before extraordinary income	**$ .29**	$ .23
Net income for year	**.31**	.28
Cash flow	**.70**	.56
Shareholders' equity	**2.61**	2.28

	1974	1973
Number of Restaurants at end of year:		
A&W's	**50**	50
Fuller's	**20**	20
Corkscrews	**2**	1
LeRoy's	**5**	3
Buffalo Bill's	**1**	1
Hickory House	**1**	1
Others	**8**	8
	87	84

CONTROLLED FOODS INTERNATIONAL LTD.

Interim Report to Shareholders

for the Six Months Ended June 30, 1974

To Our Shareholders:

The six month's results for the period ending June 30th continue to reflect the steady growth in gross operating revenues and profits of your Company. Revenues have increased over those of last year by 36.4% or $12,308,847 compared to $9,021,800. Profits before extraordinary items have increased by 30.1% or 10.8 cents per share compared to 8.3 cents per share for the same period of 1973.

From its opening date of last December 3rd, Management has been impressed with sales and profits generated from its steak and lobster restaurant in the Square One Shopping Centre in Mississauga, Ontario. Two more of these restaurants are now under construction in the City of Edmonton. These restaurants, unlike the unit in Square One, are to be free-standing units and will be able to provide ample parking facilities for their customers. The first of these two units is scheduled to open approximately November 15th, with the second opening due in the month of January, 1975. We are anxious to review the results of these restaurants and will be reporting their results to you in our next annual report.

In other areas, the Company will continue with the expansion of its Fuller's Restaurant Division with new openings slated for the first quarter of 1975. The Company will also begin an upgrading and modernization of the A&W Division with plans to begin in the near future on renovating four units. These renovations are designed to provide the customer with inside seating facilities while maintaining our original concept of providing service to the car.

On Behalf of the Board,

LeRoy E. Fuller
President

August 7, 1974.

CONTROLLED FOODS INTERNATIONAL LTD.
(and its wholly-owned subsidiaries)

STATEMENT OF CONSOLIDATED EARNINGS

for the Six Months Ended
June 30, 1974
(with Comparative Figures for 1973)

(UNAUDITED)

	1974	1973
	$	$
Gross operating revenues	12,308,847	9,021,800
Cost of sales	4,256,335	3,260,324
Operating expenses	6,854,796	5,004,035
	11,111,131	8,264,359
Operating profit	1,197,716	757,441
Depreciation and amortization	340,813	188,390
Interest	325,233	123,414
	666,046	311,804
Income before income taxes	531,670	445,637
Estimated income taxes	255,000	225,000
Income before extraordinary income	276,670	220,637
Extraordinary income	—	32,743
Net income for the period	276,670	253,380
Earnings per share:		
Income before extraordinary income	10.8¢	8.3¢
Net income for the period	10.8¢	9.5¢

Note: Earnings per share are calculated on the basis of 2,563,355 (weighted average) shares outstanding in 1974 and 2,660,000 shares outstanding in 1973.

STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

for the Six Months Ended June 30, 1974
(with Comparative Figures for 1973)

(UNAUDITED)

	1974	1973
	$	$
Source of Funds:		
Income before extraordinary income	276,670	220,637
Add charges not requiring an outlay of funds:		
Depreciation and amortization	340,813	188,390
Development and franchise costs	18,251	21,021
Gain on disposal of fixed assets	(41,986)	—
Funds provided by operations	593,748	430,048
Decrease in long-term receivables	—	13,995
Disposal of fixed assets	158,478	278,198
Decrease in other assets	31,655	117,683
Additional long-term debt financing	1,225,000	—
	2,008,881	839,924
Application of Funds:		
Increase in long term receivables	47,171	—
Purchase of fixed assets	502,133	1,820,742
Retirement of long-term debt	337,927	109,562
Purchase of Controlled Foods International Ltd. shares	278,906	—
	1,166,137	1,930,304
Increase (Decrease) in working capital	842,744	(1,090,380)
Working capital – January 1	92,335	204,075
Working capital – June 30	935,079	(886,305)

To our Shareholders

On this page last year, we published our goal for 1974: Continued growth at a healthy rate with better operating margins.

How did we do?

In a headline, your Company performed remarkably well under adverse conditions.

In 1974 the Canadian dollar shrank another 10%, thanks to inflation. Hardest hit was the cost of food and labour, and the cost of money itself. In other words, the three principal items in managing a food service industry, combined to squeeze operating margins even further. Add to this, a long cold winter plus a Federal surtax and you can see why your Company is pleased with its performance despite the headwinds of the year.

We had a solid foundation for revenue growth last year: 50 A&W's, 20 Fuller's Restaurants — half of them in their first full year of operation, plus 17 other restaurants including 2 highly successful Corkscrew Restaurants. The result: a 32% revenue gain to $27,126,000. A very respectable increase considering the much larger base of $20,482,000 recorded for 1973.

Net income before extraordinary items increased to $733,093 from $601,443. A 22% gain which could have been even better were it not for the Federal Government surtax of 10% instituted May 1 of 1974. This new surtax effectively increases the rate of taxation on your Company from 46.7% to 51%. Nevertheless, earnings per share before extraordinary income are up: 29¢ compared to 23¢ last year.

Throughout 1974 your Company has been consolidating its strength and assets by reducing the outstanding capital. This was accomplished by buying back common shares. The number of shares acquired in this manner was 197,214.

The Edmonton market continues to contribute substantially in revenue and growth potential. To date, 2 new, free-standing Corkscrew Restaurants have been opened in that City. The steak and lobster menu in a mediaeval setting is proving a very popular concept, with strong possibilities for future expansion. The two Fuller's Juniors (now called LeRoy's) opened on schedule in Edmonton and achieved their plan the first year.

Our outlook for the future can be summarized in two words: cautious optimism. Worldwide inflation affects all of us, corporately and as consumers. We continue to face the dilemma of passing on all increased costs to the customer, which would improve margins in the short-term but could cost us volume in the long-term. Certainly, after the rapid expansion of 1973, and the large revenue gain of 1974, our objective is to be a strong, consolidated Company during these uncertain times.

The performance of our management and our operators is the great strength of your Company. Together, we can continue to prosper.

On behalf of the Board:

LeRoy E. Fuller

May 15, 1975

A&W

Fuller's


AVERAGE SALES PER UNIT
$275,000
$250,000
$225,000
$200,000
$175,000
$150,000
$125,000
$100,000
1969
1970
1971
1972
1973
1974
ANNUAL SALES (in thousands of dollars)
11,000
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
1970
1 unit operating
1971
4 units operating
1972
10 units operating
1973
20 units
1974
units operating

A&W Division

Perhaps more than any other division, the A&W drive-ins are subject to the whims of weather. The winter of 1974 was severe; motorists chose to stay home, and by the end of the first half, revenues were $400,000 below projections. Nevertheless, a balmy summer and fall turned in our favour to record a total year's performance of $12,813,406. A new high for the division.

Through the year, one A&W was sold, another opened. The total of 50 units increased average sales to $258,886; up $10,111 per unit from 1973.

Mini-combo's, combining to-the-car service with an indoor restaurant and take-out, are demonstrably successful. Converted units are averaging 25% + sales increases. Your Company is converting and expanding one unit to a mini-combo this year, and if it performs to expectations, more will be added in the future.

1975 shows every sign of being an exciting, record breaking year. So far, the weather is on our side. Volumes are exceeding projections. Consumer acceptance of the high A&W standard is apparent coast-to-coast. Add to this, an imaginative promotion built around the "Great A&W Root Bear" whose appealing Disney-like character is capturing the country's imagination, and you have the ingredients for a great contribution by this division.

Fuller's Division

Getting used to our new size was the Fuller's challenge of the year. With 10 new units entering their first full year of operation, good management on the line, would make all the difference in volume, efficiency and reputation.

Fuller's is very much a family restaurant: it should always be a satisfying experience, living up to its attractive menu selection, in quality and friendly service. Simple as it seems, that requires an alert, informed management. Your Company has applied itself to finding and training the very best people for these key positions in every Fuller's Restaurant.

Results through 1974 were gratifying. Total sales jumped to $10,524,000, a 55% increase over 1973. At the same time, unit profit contribution was impressive even 'though price increases had to be selective and modest.

With reasonable prices and fine management, the Fuller's Division can be confident of an "always open" future. In 1975 we'll be welcoming yet another restaurant, this one in Peterborough Shopping Centre, bringing to 21 the number of Fuller's serving families across Canada.

CONTROLLED FOODS INTERNATIONAL LTD. *(and its wholly-owned subsidiaries)*

CONSOLIDATED BALANCE SHEET

December 31, 1974

ASSETS

	1974	1973
CURRENT:		
Cash	**$ 1,900,277**	$ 1,341,326
Notes and accounts receivable (note 2)	**566,185**	548,470
Income taxes recoverable	**—**	400,664
Inventory (note 1(c))	**697,635**	417,886
Prepaid expenses and deposits	**16,907**	10,201
Total current assets	**3,181,004**	2,718,547
LONG TERM NOTES AND RECEIVABLES (note 2)	**314,837**	314,838
FIXED (note 3):		
Buildings, equipment and leasehold improvements	**10,730,521**	9,317,149
Less accumulated depreciation and amortization	**2,810,774**	2,135,741
	7,919,747	7,181,408
Land	**3,491,815**	3,340,333
	11,411,562	10,521,741
OTHER:		
Trademarks (note 4)	**193,722**	151,487
Franchises at cost less amortization (note 1 (e))	**300,360**	350,759
Deferred charges	**40,670**	62,885
Deposits	**32,797**	51,890
	567,549	617,021
	$15,474,952	$14,172,147

LIABILITIES

	1974	1973
CURRENT:		
Accounts payable and accrued charges	**$ 1,944,770**	$ 2,243,469
Income and other taxes payable	**234,851**	–
Current portion of long term debt (note 5)	**858,963**	382,743
Total current liabilities	**3,038,584**	2,626,212
LONG TERM DEBT (note 5)	**5,477,624**	5,237,639
DEFERRED INCOME TAXES (note 1(f))	**522,938**	248,000
SHAREHOLDERS' EQUITY:		
Capital stock (note 6) –		
Authorized: 4,000,000 shares without par value		
Issued: 2,660,000 shares	**3,381,509**	3,381,509
Outstanding: 1974 – 2,462,786 shares; (1973 – 2,660,000 shares)		
Retained earnings:	**3,463,600**	2,678,787
	6,845,109	6,060,296
Less shares acquired and held by the company at cost: 1974 – 197,214 shares; (1973 – nil)	**409,303**	–
	6,435,806	6,060,296
	$15,474,952	$14,172,147

On behalf of the Board:

LeRoy E. Keller Director

J. C. Humphry Director

(See accompanying notes)

CONTROLLED FOODS INTERNATIONAL LTD.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS *Year ended December 31, 1974*

	1974	1973
REVENUES:		
Sales	**$26,906,319**	$20,381,047
Other income	**219,380**	101,003
	27,125,699	20,482,050
COST AND EXPENSES:		
Cost of sales	**9,167,985**	7,131,707
Depreciation and amortization of fixed assets (note 1(d))	**696,369**	487,939
Selling, operating, general and administrative expenses	**15,002,860**	11,395,815
Interest —		
Long term debt	**734,407**	299,353
Other	**28,160**	38,713
	25,629,781	19,353,527
Income before income taxes	**1,495,918**	1,128,523
Income taxes:		
Current	**487,887**	198,080
Deferred	**274,938**	329,000
	762,825	527,080
Income before extraordinary items	**733,093**	601,443
Extraordinary items (note 7)	**51,720**	131,759
Net income for year	**784,813**	733,202
Retained earnings, beginning of year (note 9)	**2,678,787**	1,945,585
Retained earnings, end of year	**$ 3,463,600**	$ 2,678,787
Basic and fully diluted earnings per share (note 6):		
Income before extraordinary items	**$.29**	$.23
Net income for year	**$.31**	$.28

(See accompanying notes)

CONTROLLED FOODS INTERNATIONAL LTD.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1974

	1974	1973
SOURCE OF FUNDS:		
Operations —		
Net income for the year	**$ 784,813**	$ 733,202
Add (deduct):		
Depreciation and amortization of fixed assets	**696,369**	487,939
Amortization of franchises and other assets	**67,486**	49,186
Deferred income taxes	**274,938**	248,000
Gain on disposal of fixed assets	**(40,166)**	(9,362)
Extraordinary items	**(28,319)**	(26,059)
Total funds from operations	**1,755,121**	1,482,906
Proceeds on disposal of fixed assets	**241,222**	514,972
Proceeds on disposal of other assets	**26,058**	107,384
Long term debt financing	**1,200,000**	3,490,000
	3,222,401	5,595,262
APPLICATION OF FUNDS:		
Fixed assets acquired	**1,758,926**	5,562,723
Less assets sold and leased back	**—**	435,000
	1,758,926	5,127,723
Increase in other assets	**1,837**	—
Decrease in long term receivables	**—**	15,664
Trademark	**42,235**	151,487
Retirement of long term debt	**960,015**	399,685
Corporate investment in Controlled Foods International Ltd. shares	**409,303**	—
	3,172,316	5,694,559
Increase (decrease) in working capital	**50,085**	(99,297)
Working capital, beginning of year	**92,335**	191,632
Working capital, end of year	**$ 142,420**	$ 92,335

(See accompanying notes)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *December 31, 1974*

1. Accounting policies —

The following is a summary of significant accounting policies used in the preparation of these financial statements.

(a) Principles of consolidation:

The financial statements consolidate the accounts of Controlled Foods International Ltd. and all its subsidiary companies as listed:

Controlled Foods Corporation Limited
The Country Fare Restaurant Limited
Buffalo Bill Steak Village Ltd.
Hickory House Ltd.
Kingwall Restaurants Ltd.
The Corkscrew Restaurant Ltd.
Courtenay A&W Drive-In Ltd.
Burnaby Foods, Inc.
Burger Family Inn of Billings Inc.
A&W Soda Shops, Inc.
South Carolina Drive-Ins, Inc.

The accounts of Restaurantera Cosmopolita, S.A., all of the shares of which are owned by the company, are not included in the consolidated statements for reasons set out in Note 4.

All significant inter-company transactions have been eliminated.

The company acquired various subsidiary companies by means of the issue of shares. The assets and liabilities of these companies have been combined in the accompanying balance sheet on a "pooling of interests" basis. The acquisition of all the outstanding shares of a company operating in Southern Ontario and the cost of the assets and undertaking of three restaurants acquired, principally for cash, by a subsidiary company have been accounted for as "purchases".

(b) Foreign currencies:

All U.S. balances have been translated into Canadian funds at par.

(c) Inventory:

Inventories of food and packaging are valued at cost.

(d) Depreciation:

Depreciation on fixed assets is computed on the straight-line basis over the estimated useful life of the assets at rates varying from 5% to 20%. Leasehold improvements are amortized over the life of the applicable lease.

(e) Amortization of other assets:

Franchises are being amortized on a straight-line basis over the terms of the contractual agreements which vary to a maximum of twenty years.

(f) Income taxes:

In accounting for income taxes the companies follow the tax allocation method in which the major timing difference relates to the depreciation of fixed assets.

No recognition has been made in the accounts of possible tax reductions of $260,000 in future years resulting from costs recorded in the accounts in excess of those claimed for tax purposes and from non-capital losses incurred by certain subsidiaries in 1974 and prior years, which are available for deduction from future taxable income in the respective companies within the limitations prescribed by Canadian tax law.

(g) Comparative figures:

Comparative figures are reclassified to conform with the presentation of the current year.

2. Due from shareholders, directors and officers —

Included in current and long term notes and accounts receivable are the following amounts:

	1974	1973
Due from shareholders	$ 9,395	$ 18,701
Due from directors and officers	97,843	119,375
	$107,238	$138,076

In 1972 the company advanced $70,000 to two officers of the company one of whom is a director to enable them to purchase shares of the company under stock option plans (note 6). By amendment of the terms of the original agreement these advances are now repayable without interest in four equal annual instalments commencing January 1, 1977.

The remaining $27,843 due from an officer who is also a director is repayable in two instalments, $8,468 on December 31, 1975 and $19,375 on December 31, 1976.

3. Fixed assets —

The major categories of fixed assets are as follows:

	Cost	Accumulated Depreciation and Amortization	1974 Net Value	1973 Net Value
Buildings	$ 3,772,583	$ 699,714	$ 3,072,869	$ 3,033,411
Equipment, signs, fences and paving	4,579,865	1,712,868	2,866,997	2,645,502
Leasehold improvements	2,378,073	398,192	1,979,881	1,502,495
	10,730,521	2,810,774	7,919,747	7,181,408
Land	3,491,815	—	3,491,815	3,340,333
	$14,222,336	$2,810,774	$11,411,562	$10,521,741

4. Trademarks —

In 1973 the company acquired, subject to certain conditions, all the issued shares of Restaurantera Cosmopolita, S.A., a company whose only significant asset is certain trademarks registered in Mexico. The purchase price of the shares and the advances to the subsidiary have been allocated as the cost of these trademarks. Payment of the purchase price of the shares may be deferred at the company's option until May, 1976. Also at its option the company may terminate the purchase in the event certain covenants of the vendors are not met.

5. Long term debt —

Long term debt consists of:

	1974	1973
Bank loan — with interest at 2% over the bank's prime rate, repayable in monthly instalments of varying amounts with the balance due August 31, 1980	$3,705,000	$2,825,000

	1974	1973
Mortgages and agreements — with interest rates from 7% to 12% and maturing at various dates to August 1986, secured by charges against land and buildings of certain subsidiaries	2,056,673	2,128,678
Notes payable — with interest rates from 8% to 8½% and maturing at various dates to April, 1977 and secured by a floating charge debenture on the assets of a subsidiary	33,750	48,750
Land purchase commitment — due March, 1993	250,000	250,000
Lien notes payable — due at various dates to July, 1978, secured by charges against equipment of certain subsidiaries	201,164	277,954
Payment due in May, 1976 for shares of Restaurantera Cosmopolita, S.A. (note 4)	90,000	90,000
	6,336,587	5,620,382
Less amounts due within one year	858,963	382,743
	$5,477,624	$5,237,639

Principal amounts repayable over the next five years are as follows:
1975 — $858,963; 1976 — $1,031,050; 1977 — $1,065,895;
1978 — $695,194; 1979 — $ 497,556; 1980 to 1993 — $2,187,928

Bank indebtedness is secured by registered demand debentures in the amount of $9,000,000 providing fixed and floating charges against the assets of the parent company and the principal operating subsidiaries.

6. Capital stock —

(a) During the year, the company acquired 197,214 shares of its capital stock through purchases on the open market at a total cost, including applicable taxes, of $409,303.

Subsequent to the year end, during the period from January 1, 1975 to April 30, 1975 the company has acquired an additional 621,386 shares at an aggregate cost of $1,491,759.

(b) Stock options:

At December 31, 1974 the following options to purchase common shares were outstanding:

Number of shares	Price	Exercisable	Expiry date
14,000	$2.50	Currently	June 30, 1977
7,000	$2.50	July 1, 1975	June 30, 1977
7,000	$2.50	July 1, 1976	June 30, 1977
7,000	$2.50	July 1, 1977	June 30, 1978
35,000			

Included are options granted to senior officers to purchase 10,000 common shares.

(c) Earnings per share:

There would be no material dilutive effect on earnings per share if the outstanding options referred to in (b) above were exercised.

7. Extraordinary items —

Extraordinary income items comprise the following:

	1974	1973
Recoveries on sales of discontinued business properties in excess of original estimated values (including income tax reductions of Nil in 1974 and $9,400 in 1973)	$28,319	$ 35,459
Reduction in income taxes from carrying forward prior years' losses and claiming for tax purposes amounts in excess of those recorded in the accounts (note 1 (f))	23,401	96,300
	$51,720	$131,759

8. Statutory information —

The remuneration of directors and senior officers amounted to $217,843 (1973 — $145,571).

9. Commitments —

(a) Certain subsidiary companies have entered into leases of equipment and real property for varying terms up to a maximum of twenty-one years with rentals varying in some instances with gross revenues, taxes, insurance and other occupancy charges. Minimum rentals for the succeeding five years are as follows:

1975 — $1,192,628   1976 — 1,174,060   1977 — 1,138,061   1978 — 1,039,220   1979 — 992,944

(b) At December 31, 1974 certain subsidiary companies had commitments for construction projects and acquisition of fixed assets totalling $622,000.

AUDITORS' REPORT

To the Shareholders of Controlled Foods International Ltd.:

We have examined the consolidated balance sheet of Controlled Foods International Ltd. and its wholly-owned subsidiaries as at December 31, 1974 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, Canada, Clarkson Gordon & Co.
April 30, 1975. *Chartered Accountants*

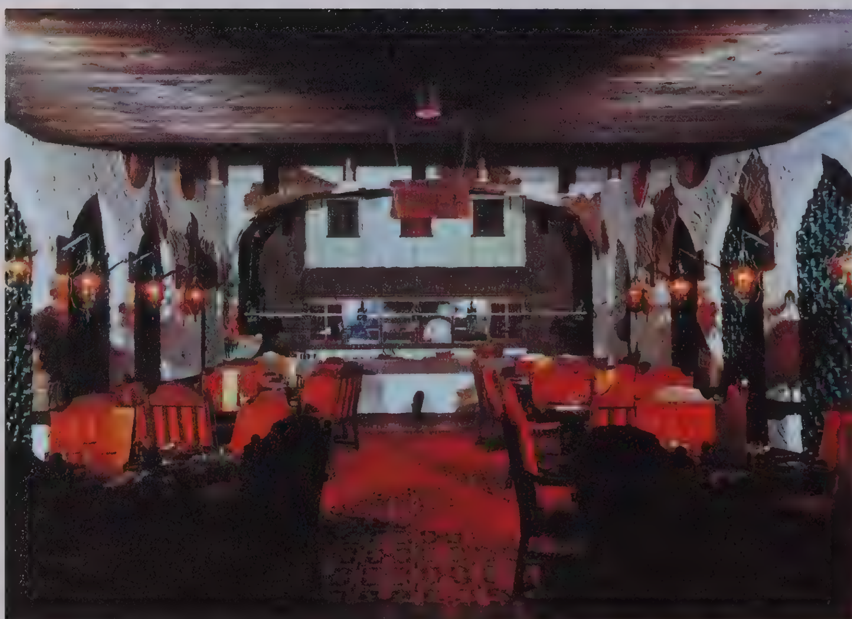
Corkscrew Restaurants

Dining out is an entertainment. It calls for a touch of magic in the mood, a congenial host, and a sumptuous feast. The Corkscrew finds just the right combination with its mediaeval theme, friendly staff and specialized steak and lobster menu.

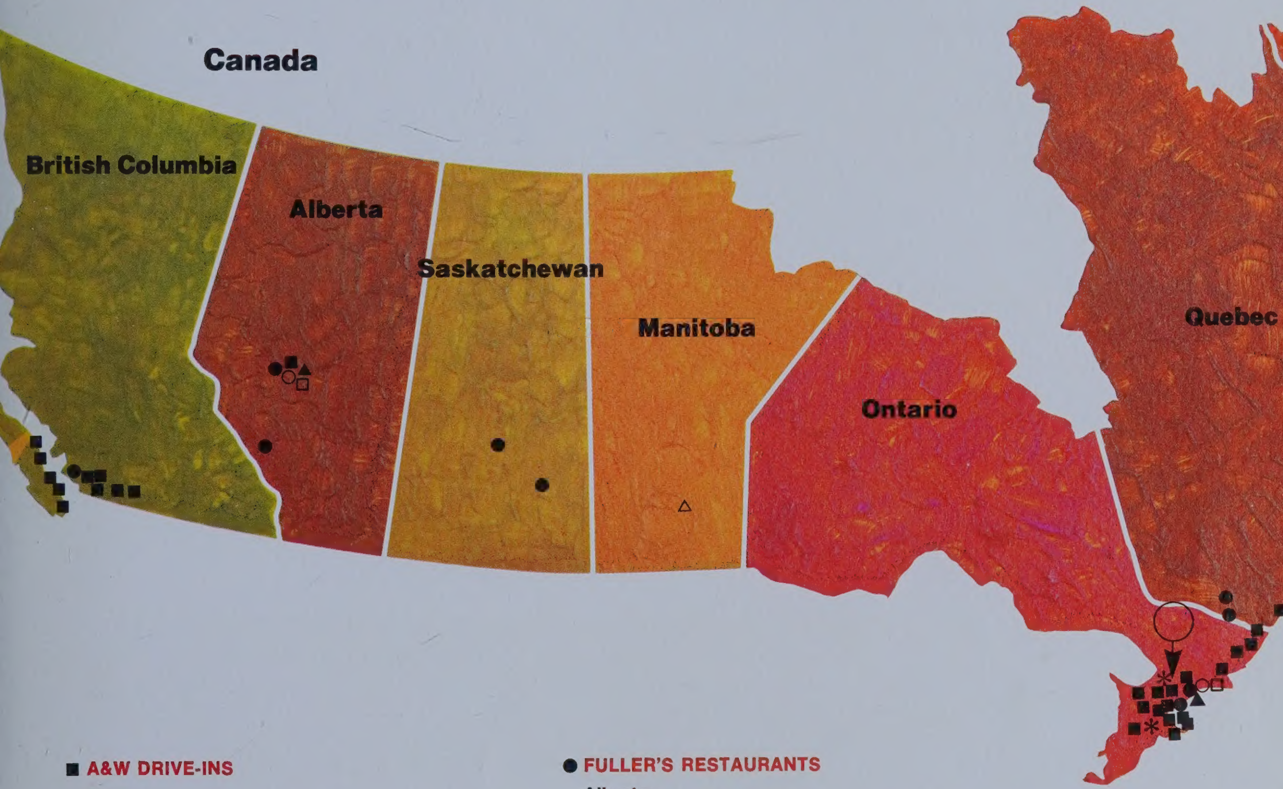
To date, your Company has brought 3 Corkscrew Restaurants into operation. The first: a 280 seat unit in Square One Mall, Mississauga, Ontario. This unit was followed a year later by the Calgary Trail Corkscrew in Edmonton. This is a free-standing unit with four large splendidly decorated halls capable of seating 300 guests. The Jousting Hall, the Knights Hall, Round Table Hall, and Hunting Hall each has its own fireplace and decor.

Enhancing the concept is an award-winning menu design reminiscent of a Town Crier's proclamation, and a salad bar with two dozen selections to delight any gourmet. The Restaurants are licenced with a good wine selection and an automated dispensing system for mixed drinks in perfect proportions.

The third Corkscrew opened April 26, 1975 in Edmonton. Each unit promises to become a great success as word of mouth, and repeat visits accrue. To date, this new division has exceeded expectations, and points to a dynamic expansion opportunity.



CONTROLLED FOODS RESTAURANT LOCATIONS:



■ A&W DRIVE-INS

Alberta:
Edmonton—11

British Columbia:
Abbotsford—1
Campbell River—1
Chilliwack—1
Courtenay—1
Duncan—1
Haney—1
Langley—1
Nanaimo—1
Port Coquitlam—1
Victoria—4

Ontario:
Belleville—1
Brockville—1
Cornwall—2
Kingston—1
London—4
Mississauga—1
Niagara Falls—2
Oakville—1
Port Colborne—1
Port Credit—1
Richmond Hill—1
St. Catharines—2
Stratford—1
Trenton—1
Welland—2
Woodstock—1

Quebec:
Granby—1
Sherbrooke—2

○ LEROY'S

Alberta:
Edmonton—3

Ontario:
Toronto—2

● FULLER'S RESTAURANTS

Alberta:
Calgary—2
Edmonton—5

British Columbia:
Vancouver—2

Ontario:
Hamilton—1
Ottawa—2
Toronto—5

Quebec:
Hull—1

Saskatchewan:
Regina—1
Saskatoon—1

◯ MISSISSAUGA'S SQUARE ONE SHOPPING CENTRE

(Serviced by 7 fast food bars) in addition to Fuller's, LeRoy's (2) Corkscrew and Jerry's Malt Shop

*** JERRY'S MALT SHOP**

Ontario:
Kitchener—1
Mississauga–1

▲ CORKSCREW RESTAURANT

Alberta:
Edmonton—2

Ontario:
Toronto—1

□ BUFFALO BILL'S

Alberta:
Edmonton—1

Ontario:
Toronto—1

△ HICKORY HOUSE

Manitoba:
Winnipeg—1

Five Year Statistical Review

	1974	1973	1972	1971	1970
			(000's eliminated)		
Sales	**$26,906**	$20,381	$15,398	$12,966	$13,181
Franchise fees	**—**	—	—	—	123
Other Income	**219**	101	149	270	258
	27,125	20,482	15,547	13,236	13,562
Cost of Sales	**9,168**	7,132	5,402	4,713	4,967
Operating Expenses	**15,003**	11,396	8,483	7,155	7,353
	24,171	18,528	13,885	11,868	12,320
Operating Profit	**2,954**	1,954	1,662	1,368	1,242
Depreciation and amortization	**696**	488	366	318	342
Interest	**762**	338	235	181	223
	1,458	826	601	499	565
Income before taxes	**1,496**	1,128	1,061	869	677
Income taxes	**763**	527	517	396	287
Income before extraordinary items	**733**	601	544	473	390
Extraordinary income (expenses)	**52**	132	51	848	(1,109)
Net income (loss) for year	**$ 785**	$ 733	$ 595	$ 1,321	$ (719)
Average number of shares outstanding	**2,516**	2,660	2,631	2,625	2,625
Earnings per share before extraordinary items	**$ .29**	$ .23	$ .21	$ .18	$ .15
Earnings (loss) per share	**$ .31**	$ .28	$ .23	$ .50	$ (.27)

Outlook

Setting the Objective

Just a quick glance at the five year statistical review of your Company reveals a dramatic fact. We have doubled in size since 1971. In that year our total income was just over thirteen million dollars. This year, income topped twenty seven million.

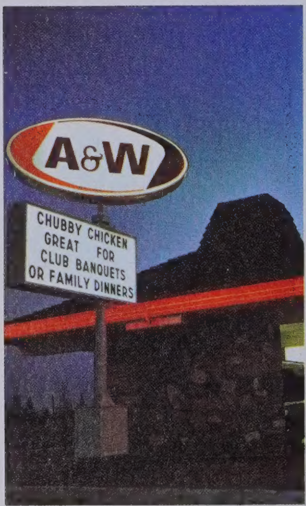
Four years ago, the Fuller's Division was a brave new experiment. We had one unit, which opened in Edmonton on December 16, 1970. Today there are 20 across Canada, contributing $10.5 million.

Last year, we entered into another experiment with the Corkscrew concept in Square One Mall. Today there are three in operation; another is scheduled to open during 1975. In a very real way, the Corkscrew Restaurants have become a new division of the Company.

Today, we're looking closely at the Buffalo Bill's Western Steak House Restaurants as a viable franchise operation. The new unit in Square One Mall won immediate popularity with its low prices and casual Western motif.

Three years ago it would have been foolhardy to set as a goal what we in fact achieved. A doubling of volume; multiple diversification, Canada-wide operations. Yet it happened.

By the end of 1977, your Company may have doubled in size again. But that would be a foolish goal to set. In the Food Service Industry, we must be flexible — sensitive to the fickle tastes and changing lifestyles of the market. If we are responsive, our growth will be natural. With a little insight, we can identify the needs in the market, and move swiftly to satisfy them.



OFFICERS
LeRoy E. Fuller
J. Marcel Prefontaine
D. Glen Neil
Robert R. Roe
Jack Fuller

AUDIT COMMITTEE
Kenneth A. Fowler
Joseph C. Murphy

HEAD OFFICE
Vancouver, Canada

SOLICITORS
Davis & Company

TRANSFER AGENT
Canada Permanent Trust Company

AUDITORS
Clarkson, Gordon & Co.

BANKERS
The Toronto-Dominion Bank
The Mercantile Bank of Canada

STOCK LISTING
The Toronto Stock Exchange
Symbol: CFS

DIRECTORS
Kenneth A. Fowler
LeRoy E. Fuller
Joseph C. Murphy
J. Marcel Prefontaine

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